Walden Green Montessori

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

Year ended June 30, 2005

Walden Green Montessori

TABLE OF CONTENTS

Management's Discussion and Analysis .... i - vi

Independent Auditors' Report 1

Basic Financial Statements
School-wide Financial Statements
Statement of Net Assets 3
Statement of Activities 4
Fund Financial Statements
Balance Sheet—Governmental Funds 5
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets 6
Statement of Revenues, Expenditures and Changes in Fund Balance—Governmental Funds 7
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities 8

Notes to Financial Statements 9

Required Supplemental Information

Budgetary Comparison Schedule—General Fund 19

Other Documents

Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based Upon an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. 21

This section of the Walden Green Montessori's annual financial report presents our discussion and analysis of the School's financial performance during the year ended June 30, 2005. Please read it in conjunction with the School's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Walden Green Montessori financially as a whole. The School-wide financial statements provide information about the activities of the whole School, presenting both an aggregate view of the School's finances and a longer-term view of those finances. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the School's operations in more detail than the School-wide financial statements. The basic financial statements are comprised of the following elements:

- **Management's Discussion and Analysis (MD&A)**
  - Required Supplemental Information
- **Basic Financial Statements**
  - School-wide Financial Statements
  - Fund Financial Statements
  - Notes to the Basic Financial Statements
- Required Supplemental Information
  - Budgetary Information for the General Fund

Reporting the School as a Whole—School-wide Financial Statements

One of the most important questions asked about the School is, as a whole, what is the School's Statement of Activities, which appears first in the School's financial statements. The Statement of Activities reports information on the School as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the School's net assets—the difference is between assets and liabilities, as reported in the Statement of Net Assets—as one way to measure the School's financial health or financial position. Over time, increases or decreases in the School's net assets—as reported in the Statement of Activities—are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School's operating results. However, the School's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School.

The Statement of Net Assets and Statement of Activities report the governmental activities for the School, which encompass all of the School's services, including instruction and support services. Unrestricted state aid (foundation allowance revenue) and state and federal grants finance most of these activities.

Reporting the School's Most Significant Funds—Fund Financial Statements

The School's fund financial statements provide detailed information about the most significant funds—not the School as a whole. Walden Green uses one fund – a general fund – at this time. The General Fund of the School uses the following accounting approach:

Governmental funds—All of the School's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation.

The School as a Whole

Recall that the Statement of Net Assets provides the perspective of the School as a whole. The following table provides a summary of the School's net assets as of June 30, 2005 and 2004.

Net Assets	2005 Governmental Activities	2004 Governmental Activities
Assets		
Current and Other Assets	$ 344,874	$ 319,693
Capital Assets	330,362	335,874
Total Assets	675,236	655,567
Liabilities		
Current Liabilities	41,580	42,364
Long-term Liabilities	316,312	326,276
Total Liabilities	357,892	368,640
Net Assets		
Invested in Capital Assets—Net of Related Debt	4,050	298
Unrestricted	313,294	286,629
Total Net Assets	$ 317,344	$ 286,927

The above analysis focuses on the net assets. The change in net assets (see table below) of the School's governmental activities is discussed below. The current and other assets increased $25,181 as a result of the School's positive change in net assets. Capital assets decreased due to normal annual depreciation offset by an increase in building improvements. Current liabilities decrease was due the prior year having a grant amount due to back to another governmental unit. Long-term liabilities decreased due to normal principal repayment. The net assets are comprised of two components. Invested in capital assets, net of related debt represent the Schools net assets invested in buildings and equipment less the related debt which are not available to pay current liabilities. The remaining amount of net assets $313,294 was unrestricted.

The $313,294 in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. The unrestricted net asset balance is used to provide working capital and cash flow requirements as well as providing for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the School as a whole are reported in the Statement of Activities, which shows the changes in net assets for fiscal year 2005.

Statement of Activities

Functions/Programs	2005 Governmental Activities	2004 Governmental Activities
Program Revenue		
Charges for Services	$ 27,700	$ 38,209
Operating Grants	48,759	22,258
General Revenues		
Grants and Contributions Not Restricted to Specific Programs	739,692	704,573
Unrestricted Investment Earnings	1,414	835
Miscellaneous	15,331	18,964
Total General Revenues and Special Items	832,896	784,839
Expenses		
Instruction	497,276	466,780
Support Services	259,089	255,728
Interest on Long-term Debt	24,834	26,221
Unallocated Depreciation	21,280	24,519
Total Governmental Activities	802,479	773,248
Change In Net Assets	30,417	11,591
Net Assets – beginning	286,927	275,336
Net Assets – ending	$ 317,344	$ 286,927

Change in Net Assets

The School experienced an increase in net assets of $30,417. A key reason for the increase in net assets was an increase in the student population which increased state aid resulted in additional expenditures. However, the increase in expenditures was less than the increase in revenues and resulted in a increase in the change in net assets.

As discussed above, the net cost shows the financial burden that was placed on the State by each of these functions. Since unrestricted state aid constitutes the vast majority of district operating revenue sources, the Board of Directors and Administration must annually evaluate the needs of the School and balance those needs with state-prescribed available unrestricted resources.

The School's Funds

As we noted earlier, the School uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School is being held accountable for the resources taxpayers and others provide to it and may provide more insight into the School's overall financial health.

In the General Fund, our principal operating fund, the fund balance increased $28,628 to $309,677. The primary reasons for the increase are as follows:

- Higher student enrollment
- Continued tight cost controls
- Decrease in employee health care costs as a result of a decrease in employee participation

The General Fund balance is available to fund costs related to allowable school operating purposes.

General Fund Budgetary Highlights

Over the course of the year, the School revises its budget as it attempts to deal with the unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was actually adopted just before year end. (A schedule showing the School's original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information of these financial statements).

There were revisions made to the 2004-2005 General Fund original budget. State source revenues were increased $21,000 due to the original budget anticipating a decrease in foundation allowance by the State of Michigan. The instruction budget was increased by $21,740 due to an increase retirement costs, supplies and training. These items were increased once the State foundation allowance was not reduced. The operations and maintenance budget was increased due to unusual and unexpected required repair and maintenance. Other categories were adjusted to match anticipated expenditures as the year progressed.

The budget to actual revenue variations amounts are primarily the result of actual special education revenues being reclassified to comply with State of Michigan requirements. Classifications used with the original budget were different than those used for the State of Michigan requirement. Instruction expenditures ended the year higher than anticipated due to an increase in salaries, retirement and other employee benefits. Business support services were, also, higher than anticipated due to ISD testing, increased camp expenditures and unexpected asbestos testing.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2005, the School had $330,362 (after accumulated depreciation) invested in a broad range of capital assets, including land, buildings, vehicles, and furniture and equipment. This amount represents a net decrease (including additions, deductions, and depreciation) of approximately $5,512 from last year.

	2005	2004
Buildings and Land	$ 411,735	$ 412,071
Furniture and Equipment	55,799	46,061
Total Capital Assets	467,534	458,132
Accumulated depreciation	137,172	122,258
Total Assets, Net	$ 330,362	$ 335,874

We present more detailed information about our capital assets in the notes to the financial statements.

Long-term Debt

At June 30, 2005, the School had $316,312 in debt relating to a building mortgage. The School had no other debt activities during the year.

Economic Factors and Next Year's Budget

Our appointed officials and administration considered many factors when setting the School's 2006 fiscal year budget. One of the most important factors affecting the budget is our student count. The fiscal year 2006 budget anticipates an increase in enrollment of approximately 15 students. The State foundation allowance is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2006 fiscal year is 25 percent and 75 percent of the February 2005 and September 2005 student counts, respectively. The original 2006 budget was adopted in June 2005 and anticipated an increase in fund balance of $35,000. This budget will probably be amended to reflect anticipated costs for a new facility. These amendments will be made as expenditures become known.

Approximately 93 percent of total General Fund revenue comes from the state foundation grant and categorical payments. As a result, direct funding is heavily dependent on the state's ability to fund local school operations. Based on early enrollment data at the start of the 2005-2006 school year, we anticipate that the fall student count will be near the estimates used in creating the fiscal 2006 budget. Once the final student count and related per pupil funding is validated, state law requires the School to amend the budget if actual district resources are not sufficient to fund original appropriations.

Since the School's revenue is heavily dependent on state funding and the health of the state's School Aid Fund, the actual revenue received depends on the state's ability to collect revenues to fund its appropriation to Schools. The state periodically holds a revenue-estimating conference to estimate revenues.

At June 30, 2005, the School was committed to the purchase of approximately 5 acres of land in a near by location. The School has not closed on the purchase of the land, but anticipates closing by September 30, 2005. The School is in the process of designing a new facility which would be built on the newly acquired land. The new facility is 25,000 square feet and should cost approximately $4,000,000. The School anticipates starting construction this winter and having the facility available for the following academic school year.

BRICKLEY DELONG
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

August 11, 2005

Board of Education
Walden Green Montessori
Muskegon, Michigan

We have audited the accompanying financial statements of the governmental activities of Walden Green Montessori as of and for the year ended June 30, 2005, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Walden Green Montessori's management. Our responsibility is to express an opinion of these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of Walden Green Montessori, as of June 30, 2005, and the respective changes in financial position, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 11, 2005, on our consideration of Walden Green Montessori's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

500 Terrace Plaza • P.O. Box 999 • Muskegon, MI 49443
PHONE (231) 726-3147 • FAX (231) 722-0260

907 S. State St. • P.O. Box 331 • Hart, MI 49420
PHONE (231) 873-1040 • FAX (231) 873-0602

The management's discussion and analysis and budgetary comparison information on pages i through vi and page 19, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Brickley DeLong, PLC

Walden Green Montessori
STATEMENT OF NET ASSETS
June 30, 2005

	Governmental activities
CURRENT ASSETS	
Cash and cash equivalents	$ 198,969
Receivables	960
Due from other governmental units	140,648
Total current assets	340,577
NONCURRENT ASSETS	
Capital assets, net	
Nondepreciable	24,738
Depreciable	305,624
Mortgage issuance costs, net	4,297
Total noncurrent assets	334,659
Total assets	675,236
CURRENT LIABILITIES	
Accounts payable and accrued expenses	21,989
Due to other governmental units	9,591
Mortgage, due within one year	10,000
Total current liabilities	41,580
NONCURRENT LIABILITIES	
Mortgage, less amounts due within one year	316,312
Total liabilities	357,892
NET ASSETS	
Invested in capital assets, net of related debt	4,050
Unrestricted	313,294
Total net assets	$ 317,344

The accompanying notes are an integral part of this statement.

Walden Green Montessori

STATEMENT OF ACTIVITIES

For the year ended June 30, 2005

Functions/Programs	Expenses	Program Revenue: Charges for services	Program Revenue: Operating grants and contributions	Net (expense) revenue and changes in net assets: Governmental activities
Governmental activities				
Instruction	$ 497,276	$ 27,700	$ 48,759	$ (420,817)
Support services	259,089	-	-	(259,089)
Interest on long-term debt	24,834	-	-	(24,834)
Unallocated depreciation	21,280	-	-	(21,280)
Total governmental activities	$ 802,479	$ 27,700	$ 48,759	(726,020)
General revenues				
Grants and contributions not restricted to specific programs				739,692
Unrestricted investment earnings				1,414
Miscellaneous				15,331
Total general revenues				756,437
Change in net assets				30,417
Net assets at July 1, 2004				286,927
Net assets at June 30, 2005				$ 317,344

The accompanying notes are an integral part of this statement.

Walden Green Montessori

BALANCE SHEET

Governmental Funds

June 30, 2005

	General Fund
ASSETS	
Cash and cash equivalents	$ 198,969
Receivables	960
Due from other governmental units	140,648
Total assets	$ 340,577
LIABILITIES AND FUND BALANCE	
Liabilities	
Accounts payable	$ 11,595
Accrued liabilities	9,714
Due to other governmental units	9,591
Total liabilities	30,900
Fund balance	
Unreserved	309,677
Total liabilities and fund balances	$ 340,577

The accompanying notes are an integral part of this statement.

Walden Green Montessori

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS

June 30, 2005

Total fund balance—governmental funds		$ 309,677
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not current financial resources and are not reported in this governmental fund.		
Cost of capital assets	$ 467,534	
Accumulated depreciation	(137,172)	330,362
Mortgage issuance costs are not capitalized and amortized in the governmental funds.		
Mortgage issuance costs	9,915	
Accumulated amortization	(5,618)	4,297
Long-term liabilities in governmental activities are not due and payable in the current period and are not reported in the governmental funds.		
Mortgage payable		(326,312)
Accrued interest in governmental activities is not reported in the governmental funds.		(680)
Net Assets of governmental activities in the Statement of Net Assets		$ 317,344

The accompanying notes are an integral part of this statement.

Walden Green Montessori

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

Governmental Funds

For the year ended June 30, 2005

	General Fund
REVENUES	
Local sources	
Program fees	$ 27,700
Fundraising	15,331
Other	1,414
Total local sources	44,445
State sources	739,692
Federal sources	11,901
Total revenues	796,038
EXPENDITURES	
Current:	
Instruction	497,276
Support services	272,874
Other transactions	34,118
Total expenditures	804,268
Excess of revenues over (under) expenditures	(8,230)
OTHER FINANCING SOURCES	
Transfer from other governmental units and other transactions	36,858
Net change in fund balance	28,628
Fund balance at July 1, 2004	281,049
Fund balance at June 30, 2005	$ 309,677

The accompanying notes are an integral part of this statement.

Walden Green Montessori

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the year ended June 30, 2005

Net change in fund balances—governmental funds		$ 28,628
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report outlays for capital assets and mortgage fees as expenditures in the Statement of Activities; these costs are depreciated and amortized over their estimated useful lives.		
Depreciation and amortization expense	$ (23,263)	
Capital outlay	15,768	(7,495)
Interest expense on long-term debt is recorded in the Statement of Activities when incurred, but is not reported in governmental funds until paid.		20
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		9,264
Change in net assets of governmental activities		$ 30,417

The accompanying notes are an integral part of this statement.

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Walden Green Montessori (School) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the School's accounting policies are described below.

1. Reporting Entity

The School is governed by an appointed five-member Board of Directors (Board), which has responsibility and control over all activities related to public school education within the School. The School receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the School is not included in any other governmental reporting entity as defined by generally accepted accounting principles. In addition, the School's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement No. 14. Board members have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters.

2. School-wide and Fund Financial Statements

School-wide Financial Statements – The primary focus of school-wide financial statements is on the sustainability of the School as an entity and the change in the School's net assets resulting from the current year's activities. The school-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the School. The school-wide financial statements categorize primary activities as either governmental or business type. All of the School's activities are classified as governmental activities.

In the school-wide Statement of Net Assets, the governmental activities column (a) is presented on a consolidated basis and (b) is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The School's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. The School first utilizes restricted resources to finance qualifying activities. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district, and other unrestricted items are not included as program revenues but instead as *general revenues*.

The school-wide Statement of Activities reports both the gross and net cost of each of the School's functions. The functions are also supported by general revenues (certain intergovernmental revenues and charges, etc.). The Statement of Activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants. The School does not allocate indirect costs.

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Fund financial statements – Fund financial statements are provided for governmental funds.

Governmental funds – Governmental funds are those funds through which most School functions typically are financed. The acquisition, use and balances of the School's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The School reports the following **major** governmental funds:

- The *General Fund* is the School's primary operating fund. It accounts for all financial resources of the School, except those required to be accounted for in another fund.

3. Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method
The school-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants, categorical aids and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual Method
Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. With this measurement focus, operating statements present increases and decreases in net current assets, and unreserved fund balance is a measure of available spendable resources. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as compensated absences and claims and judgments, are recorded only when payment is due.

Unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the School.

State Revenue
The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to schools based on information supplied by the school. For the year ended June 30, 2005, the Foundation allowance was based on pupil membership counts taken in February 2004 and September of 2004.

The School also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

4. Other Accounting Policies

Deposit and Investments
Cash and cash equivalents include cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

The School reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standard also provides that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the School intends to hold the investment until maturity.

State statutes authorize the School to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The School is also authorized to invest in U. S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above. The School's deposits and investments are in accordance with statutory authority.

Prepaid Items
Payments made to vendors for services that will benefit periods beyond the fiscal year end are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

Restricted Assets
Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include bond proceeds to be used for capital construction.

Capital Assets and Depreciation
Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received. Capital assets are defined by the School as assets with an initial cost of more than $1,000 and an estimated useful life in excess of one year. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets. The School does not have infrastructure-type assets.

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

4. Other Accounting Policies—Continued

Capital Assets and Depreciation—Continued

Depreciation is provided on the straight-line basis over the following useful lives:

Building and improvements	10-30 years
Buses and other vehicles	5 years
Furniture and other equipment	3-10 years

Land and certain land improvements are deemed to be inexhaustible capital assets, as the economic benefit or service potential is used up so slowly that the estimated useful life is extraordinarily long. These inexhaustible assets are not depreciated.

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue. On fund financial statements, receivables that will be collected after the available period are reported as deferred revenue.

Long-term Obligations

In the school-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance cost, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Net Assets In School-wide Financial Statements

Net assets represent the difference between assets and liabilities and are segregated into the following components:

- **Invested in capital assets, net of related debt** consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

- **Restricted net assets** result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributions, and the like, or imposed by law through constitutional provisions or enabling legislation.

- **Unrestricted net assets** consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources which are imposed by management, but can be removed or modified.

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

4. Other Accounting Policies—Continued

Fund Equity In Fund Financial Statements
The School reserves those portions of governmental fund balances that are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriations for expenditures. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund balance reserves are established for encumbrances, inventory of materials and supplies, prepaid items, deferred charges and advances to other funds, when applicable. Designations of fund balance represent tentative management plans that are subject to change.

Estimates
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statement and accompanying notes. Actual results may differ from those estimates.

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting
Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. All annual budgets lapse at year end.

The School follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The President submits to the Board of Directors a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain constituent comments.
3. Prior to July 1, the budget is legally adopted by Board of Directors resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section.
4. Formal budgetary integration is employed as a management control device during the year.
5. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2005. The School does not consider these amendments to be significant.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the goods or services have not been received as of year end; the commitments will be re-appropriated and honored during the subsequent year.

Excess of Expenditures Over Appropriations in Budgeted Funds
The School did not have significant expenditure budget variances.

NOTE C—DEPOSITS AND INVESTMENTS

Interest rate risk. The School does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). The School has no investment policy that would further limit its investment choices.

Concentration of credit risk. The School does not have a concentration of credit risk policy. Concentration of credit risk is the risk of loss attributed to the magnitude of the School investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the School's deposits may not be returned to it. As of June 30, 2005, $18,849 of the School's bank balance of $214,510 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk - investments. The School does not have a custodial credit risk policy for investments. This is the risk that, in the event of the failure of the counterparty, the School will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Foreign currency risk. The School is not authorized to invest in investments which have this type of risk.

NOTE D—CAPITAL ASSETS

	Balance July 1, 2004	Additions	Deductions	Balance June 30, 2005
Capital Assets, not being depreciated:				
Land	$ 15,000	$ -	$ -	$ 15,000
Construction in progress	-	9,738	-	9,738
Total Capital Assets, not being depreciated	15,000	9,738	-	24,738
Capital Assets, being depreciated:				
Buildings and improvements	397,071	6,030	6,366	396,735
Furniture and equipment	46,061	-	-	46,061
Total Capital Assets, being depreciated	443,132	6,030	6,366	442,796
Less Accumulated Depreciation:				
Building and improvements	90,721	15,641	6,366	99,996
Furniture and equipment	31,537	5,639	-	37,176
Total Accumulated Depreciation	122,258	21,280	6,366	137,172
Total Capital Assets being depreciated, net	320,874	(15,250)	-	305,624
Capital Assets, Net	$ 335,874	$ (5,512)	$ -	$ 330,362

Depreciation

Depreciation expense has been charged as unallocated depreciation.

NOTE E—LONG-TERM OBLIGATIONS

The School issues notes and other contractual commitments to provide for the acquisition, construction and improvement of major capital facilities and for the acquisition of certain equipment. The notes are direct obligations and pledge the full faith and credit of the School.

Summary of Long-term Obligations
The following is a summary of long-term obligations activity for the School for the year ended June 30, 2005:

	Beginning balance	Additions	Reductions	Ending balance	Due within one year
Governmental activities:					
Mortgage	$ 335,576	$ -	$ 9,264	$ 326,312	$ 10,000

The mortgage consists of the following:

Building mortgage payable in monthly installments of $2,843 including interest at 7.5% due through August 20, 2007. The mortgage has a balloon payment of approximately $305,000 in August 2007.	$ 326,312

The annual requirements of principal and interest to amortize debt outstanding as of June 30, 2005 follows:

Year ending June 30,	Principal	Interest	Total
2006	$ 10,000	$ 24,135	$ 34,135
2007	10,758	23,360	34,118
2008	305,554	3,850	309,404
	$ 326,312	$ 51,345	$ 377,657

NOTE F—EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PLAN

Plan description – The School elected July 1, 2002 to contribute to the statewide Michigan Public School Employees' Retirement System for the School's single employee (MPSERS), a cost sharing multiple-employer defined benefit pension plan administered by the nine member board of the MPSERS. The MPSERS provides retirement benefits and post-retirement benefits for health, dental and vision. The MPSERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPSERS issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. That report may be obtained by writing to or calling:

Office of Retirement Systems
Michigan Public School Employees Retirement System
P.O. Box 30171
Lansing Michigan 48909
1-800-381-5111

NOTE F—EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PLAN—Continued

Funding policy – Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9 percent of gross wages. The MIP contribution rate was 4.0 percent from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9 percent. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 and December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3 percent of the first $5,000; 3.6 percent of $5,001 through $15,000; 4.3 percent of all wages over $15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9 percent of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPSERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The School is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rates for the year ended June 30, 2005, were 14.87 percent of payroll. The contribution requirements of plan members and the School are established and may be amended by the MPSERS Board of Trustees. The School contributions to MPSERS for the year ended June 30, 2005, 2004, and 2003 were approximately $10,600, $9,700 and $9,600, respectively, and were equal to the required contribution for those years.
The School is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.
Other post-employment benefits – Under the MPSERS Act, all retirees have the option of continuing health, dental and vision coverage.

NOTE G—OTHER INFORMATION

1. Economic Dependence

Prior years' revision of the State of Michigan (State) school aid formula for local public schools significantly increased State school aid, and the change in property tax laws significantly decreased local property tax revenues. As a result, State school aid represents approximately 93.7 percent of General Fund revenues.

2. Risk Management

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. The School carries commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2005 or any of the prior three years.

NOTE G—OTHER INFORMATION—Continued

3. Leased Employees

a. Management Services Agreement

The School leases its employees with the exception of one employee from an employee leasing company (Company) and is no longer required to have these School employees covered by MPSERS. Expenditures for employee costs such as salaries and wages, payroll taxes, and benefits under the management services agreements have been recorded and reported in conformance with the State of Michigan's standard chart of accounts.

b. Defined Contribution Plan

The Company maintains a defined contribution plan covering substantially all of the employees. In a defined contribution plan, benefits depend solely on amounts contributed to the Plan plus investment earnings. Contributions and costs are determined as 8 percent of each covered employee's salary. For the year ended June 30, 2005, the contributions totaled approximately $30,600, and the employee contributions were approximately $4,800.

4. Subsequent Event

In July 2005, the School entered into a purchase agreement of $305,000 for the purchase of a parcel of land. The land will be used for the construction of a new facility.

REQUIRED SUPPLEMENTAL INFORMATION

Walden Green Montessori

REQUIRED SUPPLEMENTAL INFORMATION

BUDGETARY COMPARISON SCHEDULE

General Fund

Year ended June 30, 2005

	Original budget	Final budget	Actual	Variance with final budget-positive (negative)
REVENUES				
Local sources	$ 54,000	$ 57,000	$ 44,445	$ (12,555)
State sources	718,000	739,000	739,692	692
Federal sources	-	-	11,901	11,901
Transfer from other governmental units and other transactions	30,000	30,000	36,858	6,858
Total revenues	802,000	826,000	832,896	6,896
EXPENDITURES				
Instruction	469,000	490,740	497,276	(6,536)
Support services				
General administration	197,000	182,300	178,661	3,639
Business	12,000	8,500	14,477	(5,977)
Operation/maintenance	59,200	84,100	79,736	4,364
Other Transactions	42,500	34,500	34,118	382
Total expenditures	779,700	800,140	804,268	(4,128)
EXCESS OF REVENUES OVER EXPENDITURES	$ 22,300	$ 25,860	28,628	$ 2,768
Fund balance at July 1, 2004			281,049	
Fund balance at June 30, 2005			$ 309,677	

OTHER DOCUMENTS

BRICKLEY DELONG
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED UPON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

August 11, 2005

Board of Directors
Walden Green Montessori
Spring Lake, Michigan

We have audited the financial statements of Walden Green Montessori as of and for the year ended June 30, 2005 and have issued our report thereon dated August 11, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting
In planning and performing our audit, we considered Walden Green Montessori's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance
As part of obtaining reasonable assurance about whether Walden Green Montessori's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances on noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

This report is intended solely for the information and use of the Board of Directors, management, others within the Organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Brickley DeLong, PLC

500 Terrace Plaza • P.O. Box 999 • Muskegon, MI 49443
PHONE (231) 726-3147 • FAX (231) 722-0260

907 S. State St. • P.O. Box 331 • Hart, MI 49420
PHONE (231) 873-1040 • FAX (231) 873-0602